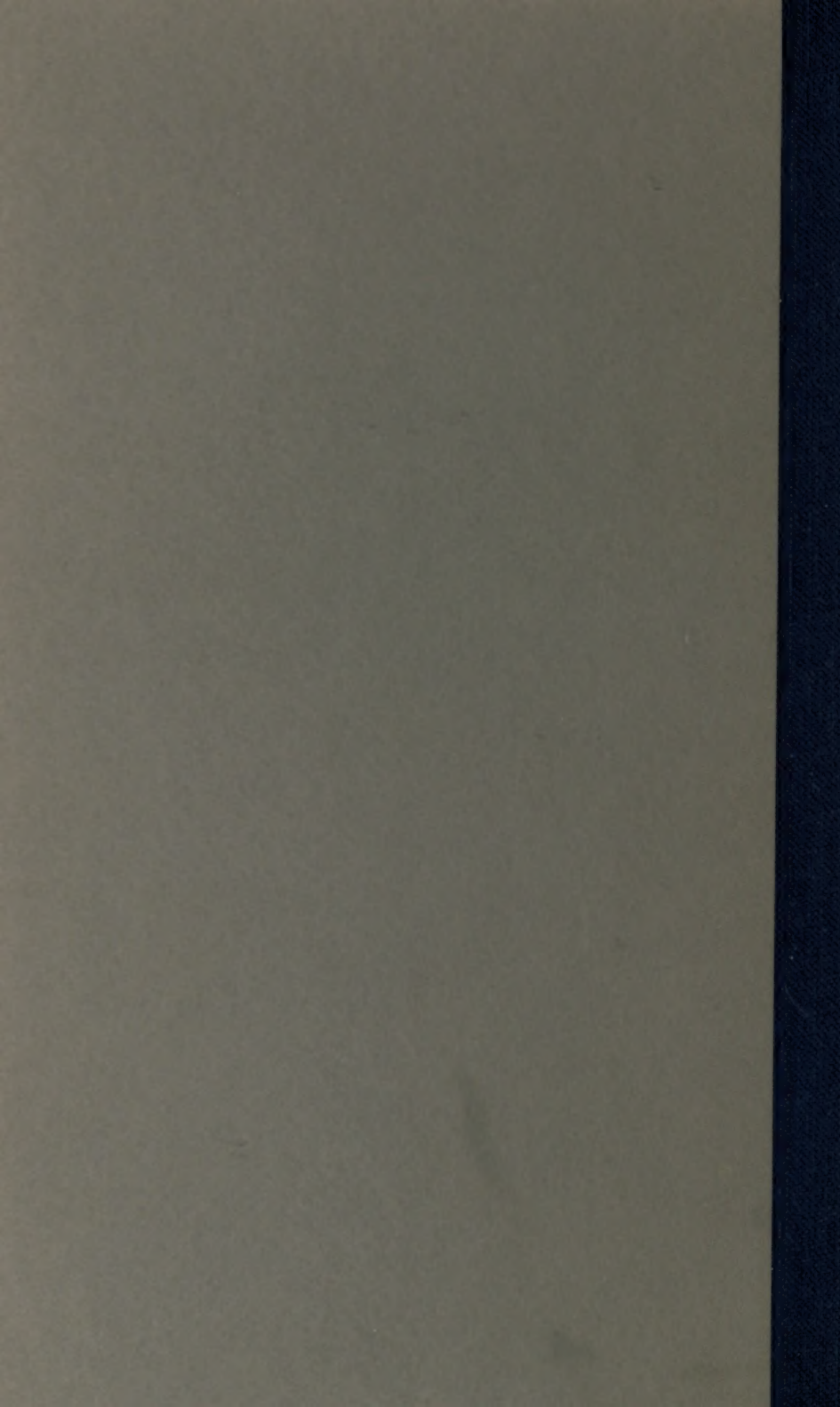



Osborn, William Church
Some phases of government
control of railroads

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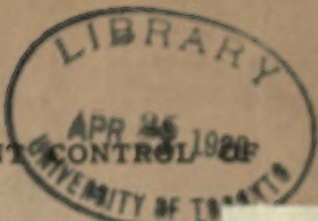




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SOME PHASES OF GOVERNMENT CONTROL OF
RAILROADS.

NATIONAL INSTITUTE OF SOCIAL SCIENCES

Hotel Astor, April 25th, 1919.

Address by

WM. CHURCH OSBORN.

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It is generally believed that the Government took control of the transportation organization of the United States on the 1st of January, 1918. Such is not the case. The Control Bill gave the Government real control of only a part of the organization. It is true that the Government assumed control of the physical property and the money of the railroads; the right to change rates, etc., at its pleasure. The Government freed itself completely from the restrictions of the Sherman Act and the Hepburn Bill as to pooling, consolidations, etc., including the regulations of the Interstate Commerce Commission, all of which had for years been the accepted policy of the country in managing the transportation interests, but the Government did not assume control of railroad labor.

A transportation system is a living organism. It gets its life from the men who run it and it works well or ill according as the men constituting the organization conduct themselves. It is a mistake to think of a railroad as the right of way, the rail, the engines, the cars, the terminals and the financial management with the bonds, stocks and balances in bank. As a fact, these things are less than half of a railroad. The other half is the working organization of men—from the President to the Gate Tender, from the Traffic Manager to the Advertising Agent—which runs the road. The flight of the Twentieth Century from New York to Chicago is made possible because each one of some thousand men performs his

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appointed duties at the stated minute. The people of the country will get good or bad transportation; will pay more or less for it, as the two million or more of ordinary railroad employees perform their duties well or ill.

The total operating revenues of the railroads for 1918 were \$4,800,000,000; of this \$2,400,000,000. was paid to labor, the rest went in materials, taxes and the rental. The dominating fact of Government operation is therefore, that although the Government took actual control of about 50% cost value of the transportation organization of the country it remained in the position of a private employer with reference to the remaining 50% of the transportation business, i. e. the human organization of the system. Mr. Kruttschnitt, President of the Southern Pacific lines is reported to have said that if he had to chose between the return of a railroad without an organization, or of an organization without a railroad, he would take the organization. The Control Bill granted to the Government no special powers of arbitration of differences with the railroad employees. It made no prohibition upon leaving the Government railroad service without notice and without cause; it granted no coercive authority such as enlistment or the fixing of a penalty for failure in duties. It left the "right to strike" in full effect. It is therefore, a misstatement to say that we have had Government control of the railroads since January 1, 1918.

The cost of materials and supplies, the maintenance of the organization and the necessary payments for capital and taxes absorb today about 50% of the gross annual revenues. The remaining 50% is paid directly to labor. We have therefore, about 50% of the railroad business under regulation and control and about 50% free. The question is whether an organization half regulated and half unregulated can endure.

The problem before the American people in settling our

transportation question is no longer to check the rapacity of capital, or to control the autocratic tendencies of the operating officials, or to fix the nature of the facilities to be given to the public. Capital no longer regards a railroad investment as a profit maker and will be thankful if its existing investments shall return a moderate income. The once haughty managers of railroads now know their masters and agree to requests of national and state commissions on all sorts of details, from placing unnecessary brakemen on a train, down to the character of drinking cups permitted in the cars. They are ready to install steel equipment, terminals, block signals and any other desirable railroad facilities, provided they can obtain the money to pay for them. The great body of financial sentiment approves Government supervision of the issues of railroad securities and is prepared fully to endorse the Government making of rates, provided they will make a return upon the existing investment. The people may therefore feel that as to 50% of their transportation no serious obstacle stands in the way of a full control; as to the remaining 50% of transportation the situation is different. From the passage of the Adamson Law, raising wages by Congress, under threat of a nation-wide strike, in the month of January, 1917, down to the settlement of the harbor strike in New York City in 1919 by the acceptance of the strikers' terms by the railroad administration, there has not been an instance where the demand for increased pay and reduced hours by the railroad employees has not been granted.

Since the passage of the Adamson Law, viz., the period from January 1st, 1917, to date, the pay of railroad men has been increased by successive stages so that the actual increase in pay in the year 1918 over the year 1916 would amount to over \$900,000,000 and the estimated increase in 1919 over 1916 would be approximately \$1,000,000,000. In order to understand these figures they may be contrasted with various

other railroad items; for instance, the increase in freight and passenger rates in 1918 produced the sum of approximately \$800,000,000. It is estimated that these excess rates, 25% on freight and 50% on passenger, will produce in the fiscal year from July 1, 1918 to June 30, 1919 the sum of \$1,000,000,000. In other words, practically all of the increase in rates has been absorbed by the increased labor charges on the roads. Contrast again the payments to labor with the payments on account of capital and we find that the increase alone in labor is equal to the entire annual rental of the properties. That rental is fixed under the Control Bill at approximately \$920,000,000 a year.

There is no mystery about who pays the railroad freight rates. They are paid first by the farmers, the manufacturers and the dealers, but they are passed on to the consumers and make part of the cost of living. The people pay the freight. The people pay excess labor charges just as they pay excess capital charges. A general railroad strike is therefore a strike to make the people pay more or grant easier conditions. A railroad strike stops industry and the food supply. Hence we are all afraid of it.

One great result of Government operation has been to make it clear to the public that they have not to deal with an ordinary conflict between capital and labor. Capital is not at present involved or interested in the subject. It is probable that the readjustment will give capital little or no voice in rates or management. The question before the country is a larger one, viz., whether the 50% of railroad earnings going to labor shall be subject to regulation and control as is the remaining 50%, or whether it shall be left to the laws of supply and demand and subject to the "right to strike." The Government management has shown itself to be helpless in the face of an organized demand by a large number of voters and that

tendency of Government, being equally apparent both in England and France, may be taken to be a general characteristic and we must consider any plans for the future management of transportation with that feature in mind.

It is the general statement in Washington by Senators and others in interest, that the roads may be turned back to private management but under far greater control than has existed heretofore. The labor question is an inconvenient question, certain to stir up trouble and arouse anger, but if the people are to have satisfactory transportation conditions, they must face the problem of the control of railroad labor as well as that of the control of railroad capital and operation. This is not a question for capital. As I have pointed out, capital for railroad enterprise has ceased to be speculative and profit making and is merely interest bearing. New capital can be had at market rates by making it secure. The subject of future capital requirements is not germane to this paper.

There is a common assumption that the roads will be turned back to private owners without action upon the labor problem. As the roads are operated at a heavy loss under the existing conditions that proposal would mean placing upon private management the burden of exacting efficient service from labor and reducing payrolls to a point at least of transportation solvency. The result would be un-coordinated efforts of a great number of different railroad managers, some strong, some weak, some vindictive, some easy, each considering his business as a separate problem and solving it as a special railroad problem without reference to the general labor requirements and conditions of the country. Doubtless, such a readjustment would be accompanied by costly and exasperating strikes. The public would be inflamed against the railroad management and much injustice and suffering would result to the men and to their families. A more ideal way, and one

more consonant with the views of an idealistic administration, would be to require the Interstate Commerce Commission to inquire into and regulate the surroundings and proper compensation of railroad labor, both wages and hours, as compared with the general labor conditions in the country. Upon that commission should sit men familiar with the conditions of railroad labor and also men familiar with the interests of the shippers using the railroads, such as members of Chambers of Commerce and the agricultural industry of the country. If possible, some members should be found who really represented the consuming public upon whose broad shoulders ultimately rests the burden of supporting the transportation of the country. Indeed, the balance of power on the commission should rest with those who have no interest except to second the general welfare, who can carry a just proportion between the special interest of the railroad employees and the general interest of the farmers, the laboring classes and the salaried people throughout the country. If the public desires to control its transportation interests, and has determined through the Commission what is a fair return for railroad labor in its different classes, and has made provision for a just revision of the scale from time to time as may be required by general conditions in the country and in the industry, the public must then face the question of how the award of the Commission shall be enforced.

- ✓ Shall railroad labor be considered to be "affected with a public interest" as is railroad capital? Shall entry into the service be made subject to certain fixed conditions with regard to leaving the service, such as thirty days' notice, the refusal of re-engagement in case service is terminated without adequate cause? Shall compulsory arbitration be adopted? Shall it be a misdemeanor to leave the service in a strike against an award adopted fairly and after due consideration? How can the railroad service be made attractive by way of old age

pensions, better facilities for living, etc.? Such are the problems which the American people face in settling their transportation question. If we attempt to turn over the management of the 50% of the problem to private control, we must face difficulties of a character far more serious since the changes brought about by the war, than those which existed previously. The owners of the railroads do not wish to take them back under existing conditions. There are many who think that the proposal to leave the readjustment of these matters to private control would bring about a general bankruptcy of the transportation systems of the country. As a matter of fact, the Government control is bankrupt today. In spite of the fact that it has raised railroad rates a billion dollars, its management is a half billion dollars behind its obligations. Government operation will require a billion appropriation by July. About a quarter of the war tax levy for this year besides another billion in transportation tax are thus due to Government operation. Were it not for the taxing power, the Government administration would have to seek refuge in a Receivership. This condition is largely caused by the increased cost and the growing inefficiency of labor under Government control, and makes plain the necessity of attacking with moderation and fairness but determinedly the problem of securing effective regulation of railroad labor in the United States.

The problem is not one of labor and capital. It is one of the relation of one branch of labor to the other labor, industries and interests of the country, for railroad rates touch everyone in the United States. There is no work in which men take such an intense and loyal interest as the railroad men take in their jobs. There is no class from whom loyal service is so essential to the public interest, because of their direct touch with the public both in passenger and freight transportation. There is no class of labor for which the strike is so tempting and so

potent a weapon. A transportation strike is a blow at the food supply of the country and paralyzes all industry by withholding material and shipments. It would be an indictment of our courage and our collective intelligence to leave this desperate remedy of a transportation strike as a temptation to the railroad workers and as a menace to the general public.

The discussions in Congress and in the press have avoided the subject of railroad labor. There is a general readiness to let some one else bell the cat.

Railroad operatives are a very fine body of men. Their work takes them away from home and involves some risk. They are well entitled to good pay and good hours. But in the interest of the public they must submit to steady discipline and be held to it. The same interest requires that its food and material supply be not interrupted, and that its freight charges be not unduly raised.

Surely some method can be found, fair alike to the railroad employees and to the general public, which will solve the question indicated in the foregoing pages, upon the grounds of absolute justice and equitable treatment relatively to other industries and interests in the country.

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